

**REPORT OF THE AUDIT OF THE  
PIKE COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John Farris, Secretary

Finance and Administration Cabinet

Honorable William M. Deskins, Former Pike County Judge/Executive

Honorable Wayne T. Rutherford, Pike County Judge/Executive

Members of the Pike County Fiscal Court

The enclosed report prepared by Simon, Underwood & Associates, PSC, presents the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pike County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements.

We engaged Simon, Underwood & Associates, PSC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Simon, Underwood & Associates, PSC, evaluated the Pike County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE PIKE COUNTY FISCAL COURT**

**June 30, 2006**

Simon, Underwood & Associates PSC has completed the audit of the Pike County Fiscal Court for fiscal year ended June 30, 2006. We have issued an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. We have issued a qualified opinion on the aggregate discretely presented component units. We qualified our opinion on the aggregate discretely presented component units because the Pike County Golf Management Corporation, a legally separated component unit, used an accrual basis of accounting for presentation of their financial statements. The Pike County Fiscal Court used a modified cash basis of accounting for presentation of their financial statements. Accounting principles generally accepted in the United States of America, as applicable to the modified cash basis of accounting, require component units to be reported under the same basis of accounting as the primary government. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Pike County's major federal programs for the year ended June 30, 2006.

#### **Financial Condition:**

The county had total net assets of \$47,561,679 as of June 30, 2006. The county had unrestricted net assets of \$5,084,397 in its governmental activities as of June 30, 2006, with total net assets of \$45,156,050. In its business-type activities, the county had unrestricted net assets of \$369,367, with total net assets of \$2,405,629. Total debt principal as of June 30, 2006, was \$16,088,849 with \$2,213,998 due within the next year.



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*Simon,  
Underwood &  
Associates* PSC

Certified Public Accountants and Consultants

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John Farris, Secretary

Finance and Administration Cabinet

Honorable William M. Deskins, Former Pike County Judge/Executive

Honorable Wayne T. Rutherford, Pike County Judge/Executive

Members of the Pike County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pike County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Pike County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Pike County Golf Management Corporation, which represent 32% and 39%, respectively, of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Pike County Golf Management Corporation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provides a reasonable basis for our opinions.

As described in Note 1, Pike County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

To the People of Kentucky  
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Management of Pike County Fiscal Court has adopted the modified cash basis of accounting, as described in Note 1, to present the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information. Management of the Pike County Golf Management Corporation, a discretely presented component unit, has adopted the accrual basis of accounting. The financial statements, because of the two different bases of accounting presented, include certain accruals required by accounting principles generally accepted in the United States of America for the Pike County Golf Management Corporation not required under the modified cash basis of accounting.

In our opinion, based on our audit and the report of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Pike County Golf Management Corporation's financial statements been presented on a modified cash basis of accounting, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of Pike County, Kentucky, as of June 30, 2006 and the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for Pike County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Management has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pike County, Kentucky's basic financial statements. The accompanying supplemental information, combining fund financial statements and component unit fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements, component unit fund financial and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

To the People of Kentucky  
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In accordance with Government Auditing Standards, we have issued our report dated September 20, 2006, on our consideration of Pike County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

*Simon, Underwood & Associates PSC*

Simon, Underwood & Associates PSC

Louisville, Kentucky  
September 20, 2006

**PIKE COUNTY OFFICIALS****For The Fiscal Year Ended June 30, 2006****Fiscal Court Members:**

William M. Deskins	County Judge/Executive
Jeff Anderson	Magistrate
Vernon Johnson	Magistrate
Leo Murphy	Magistrate
Kenneth Robinson	Magistrate
Lloyd Hillman Dotson	Magistrate
Christian Harris	Magistrate

**Other Elected Officials:**

Howard Keith Hall	County Attorney
Rodney Scott	Jailer
Lillian P. Elliott	County Clerk
David Deskins	Circuit Court Clerk
Charles "Fuzzy" Keese	Sheriff
Lonnie Osborne	Property Valuation Administrator
Russell Roberts	Coroner

**Appointed Personnel:**

Johnda B. Billiter	County Treasurer
Frankie Stacy	Finance Officer

**PIKE COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2006**



**PIKE COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**  
**June 30, 2006**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Totals	Pike County Interlocal 911 Board	Pike County Golf Mngt. Corp. 12/31/05
<b>ASSETS</b>					
Current Assets:					
Cash and Cash Equivalents	\$ 7,958,306	\$ 2,384,342	\$ 10,342,648	\$ 96,591	\$ 148,984
Receivable Due from Sale of Assets	40,000		40,000		
Receivable Due from Airport Board	47,573		47,573		
Receivable Due from 911 Board	41,216		41,216		
Assets Held for Sale	752,502		752,502		
Total Current Assets	8,839,597	2,384,342	11,223,939	96,591	148,984
Noncurrent Assets:					
Construction in Progress	3,773,594		3,773,594		
Capital Assets - Net of Accum. Depr.					
Land and Land Improvements	569,068		569,068		
Buildings	7,613,389		7,613,389		
Vehicles and Equipment	2,301,482	1,545,466	3,846,948	558,461	158,514
Infrastructure Assets-Net of Depr.	36,623,590		36,623,590		
Total Noncurrent Assets	50,881,123	1,545,466	52,426,589	558,461	158,514
Total Assets	59,720,720	3,929,808	63,650,528	655,052	307,498
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts Payable					441,455
Bonds Payable	360,000		360,000		
Financing Obligations Payable	1,026,036	827,962	1,853,998		24,039
Total Current Liabilities	1,386,036	827,962	2,213,998	0	465,494
Noncurrent Liabilities:					
Bonds Payable	10,120,000		10,120,000		
Financing Obligations Payable	3,058,634	696,217	3,754,851		28,659
Total Noncurrent Liabilities	13,178,634	696,217	13,874,851	0	28,659
Total Liabilities	14,564,670	1,524,179	16,088,849	0	494,153
<b>NET ASSETS</b>					
Invested in Capital Assets,					
Net of Related Debt	36,316,453	21,287	36,337,740	558,461	(335,639)
Restricted For:					
Grant Projects	454,188		454,188		
Capital Projects	2,969,512		2,969,512		
Debt Service	331,500	2,014,975	2,346,475		
Unrestricted	5,084,397	369,367	5,453,764	96,591	148,984
Total Net Assets	\$ 45,156,050	\$ 2,405,629	\$ 47,561,679	\$ 655,052	\$ (186,655)

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**PIKE COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**

**PIKE COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 7,810,738	\$ 537,607	\$ 6,209,923	\$ 4,336,828
Protection to Persons and Property	3,658,622	1,091,663	443,019	
General Health and Sanitation	1,076,186	33,637		
Social Services	1,228,814		25,000	
Recreation and Culture	805,022	731		
Roads	5,851,105		7,296,551	3,391,464
Airports	56,601			
Other Transportation Facilities and Services	1,187,284			
Debt Service	374,245			
Capital Projects	1,234,571			
Total Governmental Activities	23,283,188	1,663,638	13,974,493	7,728,292
Business-type Activities:				
Solid Waste Operations	4,799,268	5,402,284	169,754	
Jain Canteen	295,881	329,638		
Total Business-type Activities	5,095,149	5,731,922	169,754	
Total Primary Government	\$ 28,378,337	\$ 7,395,560	\$ 14,144,247	\$ 7,728,292
Component Units:				
Pike County Inter-Local 911 Board	\$ 452,608	\$ 415,227	\$	\$
Pike County Golf Management Board	386,055	261,414		
Total Component Units	\$ 838,663	\$ 676,641	\$ 0	\$ 0

**General Revenues:**

Taxes:

Real Property Taxes  
Personal Property Taxes  
Motor Vehicle Taxes  
Other Taxes  
Excess Fees  
Interest Received  
Transfers  
Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

**PIKE COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**  
**(Continued)**

Net (Expenses) Revenues and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Totals	Pike County Interlocal 911 Board	Pike County Golf Mngt. Corp. 12/31/05
\$ 3,273,620	\$	\$ 3,273,620	\$	\$
(2,123,940)		(2,123,940)		
(1,042,549)		(1,042,549)		
(1,203,814)		(1,203,814)		
(804,291)		(804,291)		
4,836,910		4,836,910		
(56,601)		(56,601)		
(1,187,284)		(1,187,284)		
(374,245)		(374,245)		
(1,234,571)		(1,234,571)		
83,235		83,235		
	772,770	772,770		
	33,757	33,757		
	806,527	806,527		
83,235	806,527	889,762		
			(37,381)	
				(124,641)
			(37,381)	(124,641)
1,858,197		1,858,197		
662,762		662,762		
547,839		547,839		
859,174		859,174		
572,809		572,809		
146,599	63,842	210,441	844	475
602,375	(602,375)	0		
767,507	63,465	830,972		
6,017,262	(475,068)	5,542,194	844	475
6,100,497	331,459	6,431,956	(36,537)	(124,166)
39,055,553	2,074,170	41,129,723	691,589	(62,489)
\$ 45,156,050	\$ 2,405,629	\$ 47,561,679	\$ 655,052	\$ (186,655)

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**PIKE COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2006**



**PIKE COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2006**

	<u>General Fund</u>	<u>Road Fund</u>	<u>LGEA Fund</u>	<u>General Obligation Bond Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 634,027	\$ 306,999	\$ 2,976,644	\$ 3,300,968	\$ 739,668	\$ 7,958,306
Receivable Due From 911 Board	41,216					41,216
Receivable Due From Airport Bd.	47,573					47,573
Total Assets	<u>\$ 722,816</u>	<u>\$ 306,999</u>	<u>\$ 2,976,644</u>	<u>\$ 3,300,968</u>	<u>\$ 739,668</u>	<u>\$ 8,047,095</u>
<b>FUND BALANCES</b>						
Reserved for:						
Encumbrances	\$ 15,314	\$ 62,130	\$ 66,057	\$	\$ 91,199	\$ 234,700
Grant Projects	454,188					454,188
Capital Projects				2,969,512		2,969,512
Debt Service Fund				331,456	44	331,500
Unreserved						
General Fund	253,314					253,314
Special Revenue Funds		244,869	2,910,587		648,425	3,803,881
Total Fund Balances	<u>\$ 722,816</u>	<u>\$ 306,999</u>	<u>\$ 2,976,644</u>	<u>\$ 3,300,968</u>	<u>\$ 739,668</u>	<u>\$ 8,047,095</u>

Total Fund Balances \$ 8,047,095

Amounts Reported For Governmental Activities In The Statement

Of Net Assets Are Different Because:

Capital Assets Used in Governmental Activities Are Not Financial Resources

And Therefore Are Not Reported in the Funds. 138,613,473

Accumulated Depreciation (87,732,350)

Assets Held For Resale 752,502

Receivable on Sale of Fixed Assets 40,000

Long-term and short-term debt is not due and payable

in the current period and, therefore, is not reported in the funds.

Financing Obligations (4,084,670)

Bonded Debt (10,480,000)

Net Assets Of Governmental Activities \$ 45,156,050

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**PIKE COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

**PIKE COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

	<b>General Fund</b>	<b>Road Fund</b>	<b>LGEA Fund</b>	<b>General Obligation Bond Fund</b>
<b>REVENUES</b>				
Taxes	\$ 3,869,492	\$	\$	\$
In Lieu Tax Payments	51,713	39		
Excess Fees	572,809			
Licenses and Permits	317,378			
Intergovernmental	1,782,916	5,520,100	13,096,214	239,490
Charges for Services	34,327			
Miscellaneous	75,516	553,134	7,380	
Interest	126,357	2		147,609
Total Revenues	<u>6,830,508</u>	<u>6,073,275</u>	<u>13,103,594</u>	<u>387,099</u>
<b>EXPENDITURES</b>				
General Government	3,935,320		354,923	
Protection to Persons and Property	223,681		953,376	
General Health and Sanitation	746,377		317,684	
Social Services	189,349		1,049,356	
Recreation and Culture	298,975		816,452	
Roads	86,228	10,039,823		
Airports	63		56,538	
Other Transportation Facilities and Ser			13,512	
Debt Service	16,844		419,605	642,928
Capital Projects	53,824		1,136,257	2,559,569
Administration	1,374,128	1,295,512	199,590	
Total Expenditures	<u>6,924,789</u>	<u>11,335,335</u>	<u>5,317,293</u>	<u>3,202,497</u>
Excess (Deficiency) of Revenues				
Expenditures Before Other				
Financing Sources (Uses)	<u>(94,281)</u>	<u>(5,262,060)</u>	<u>7,786,301</u>	<u>(2,815,398)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Financing Obligations		752,502		
Transfers From Other Funds	246,868	4,731,500	94,154	189,568
Transfers To Other Funds		(670,107)	(6,712,184)	(94,154)
Total Other Financing Sources (Uses)	<u>246,868</u>	<u>4,813,895</u>	<u>(6,618,030)</u>	<u>95,414</u>
Net Change in Fund Balances	152,587	(448,165)	1,168,271	(2,719,984)
Fund Balances - Beginning	570,229	755,164	1,808,373	6,020,952
Fund Balances - Ending	<u>\$ 722,816</u>	<u>\$ 306,999</u>	<u>\$ 2,976,644</u>	<u>\$ 3,300,968</u>

The accompanying notes are an integral part of the financial statements.

**PIKE COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**  
**(Continued)**

<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
\$ 6,729	\$ 3,876,221
	51,752
	572,809
	317,378
1,907,668	22,546,388
224,481	258,808
237,713	873,743
20,243	294,211
<u>2,396,834</u>	<u>28,791,310</u>
	4,290,243
2,025,674	3,202,731
	1,064,061
	1,238,705
	1,115,427
	10,126,051
	56,601
1,173,772	1,187,284
13,862	1,093,239
950,000	4,699,650
1,017,340	3,886,570
<u>5,180,648</u>	<u>31,960,562</u>
<u>(2,783,814)</u>	<u>(3,169,252)</u>
	752,502
3,277,109	8,539,199
<u>(460,379)</u>	<u>(7,936,824)</u>
<u>2,816,730</u>	<u>1,354,877</u>
32,916	(1,814,375)
706,752	9,861,470
<u>\$ 739,668</u>	<u>\$ 8,047,095</u>

The accompanying notes are an integral part of the financial statements.

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**PIKE COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**



**PIKE COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds \$ (1,814,375)

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	7,899,219
Depreciation Expense	(1,801,983)
Capital Asset Disposal	(434,265)
Asset Held For Resale	752,502
Asset Disposal - Asset Held For Resale	(520,000)

Payment on receivables provide for current financial resources to Governmental Funds, while at the Government-wide level, a reduction of the receivable occurs. These transactions have no effect on net assets.

Receivable Receipts	(10,000)
---------------------	----------

The issuance of debt (e.g. bonds, leases) provides current financial resources to governmental funds, while debt principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions, however, have no affect on net assets.

Financing Obligation Proceeds - short term	(752,502)
Financing Obligations Principal Payments	2,541,901
Bond Principal Payments	240,000
Change in Net Assets of Governmental Activities	\$ 6,100,497

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**PIKE COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS**  
**June 30, 2006**



**PIKE COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS**

**June 30, 2006**

	<b>Business-Type Activities</b>		
	<b>Enterprise Fund</b>		
	<b>Solid Waste Fund</b>	<b>Jail Canteen Fund</b>	<b>Totals</b>
<b>Assets</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 2,221,330	\$ 163,012	\$ 2,384,342
Total Current Assets	<u>2,221,330</u>	<u>163,012</u>	<u>2,384,342</u>
Noncurrent Assets:			
Capital Assets:			
Vehicles and Equipment	4,791,817		4,791,817
Less Accumulated depreciation	(3,246,351)		(3,246,351)
Total Noncurrent Assets	<u>1,545,466</u>		<u>1,545,466</u>
Total Assets	<u>3,766,796</u>	<u>163,012</u>	<u>3,929,808</u>
<b>Liabilities</b>			
Current Liabilities			
Financing Obligations Payable	<u>827,962</u>		<u>827,962</u>
Total Current Liabilities	<u>827,962</u>		<u>827,962</u>
Noncurrent Liabilities			
Financing Obligations Payable	<u>696,217</u>		<u>696,217</u>
Total Noncurrent Liabilities	<u>696,217</u>		<u>696,217</u>
Total Liabilities	<u>\$ 1,524,179</u>		<u>\$ 1,524,179</u>
<b>Net Assets</b>			
Invested in Capital Assets,			
Net of Related Debt	\$ 21,287	\$	\$ 21,287
Restricted for Debt Service	2,014,975		2,014,975
Unrestricted	<u>206,355</u>	<u>163,012</u>	<u>369,367</u>
Total Net Assets	<u>\$ 2,242,617</u>	<u>\$ 163,012</u>	<u>\$ 2,405,629</u>

The accompanying notes are an integral part of the financial statements.

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**PIKE COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**



**PIKE COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

	<b>Business-Type Activities</b>		
	<b>Enterprise Funds</b>		
	<b>Solid Waste Fund</b>	<b>Jail Canteen Fund</b>	<b>Totals</b>
<b>Operating Revenues</b>			
Operating Grants	\$ 169,754	\$	\$ 169,754
Garbage Collection	3,402,179		3,402,179
Landfill User Fees	1,992,952		1,992,952
Recycling	7,153		7,153
Miscellaneous	41,771		41,771
Canteen Receipts		329,638	329,638
Total Operating Revenues	<u>5,613,809</u>	<u>329,638</u>	<u>5,943,447</u>
<b>Operating Expenses</b>			
Office Materials & Supplies	27,265		27,265
Office Expense	32,567		32,567
Maintenance Expense	490,282		490,282
Grant Expenditures	172,540		172,540
Uniforms	7,333		7,333
Payroll Expense	2,018,185		2,018,185
Fringe Benefits	1,658,454		1,658,454
Cost of Sales		235,735	235,735
Educational and Recreational		60,146	60,146
Depreciation	238,228		238,228
Miscellaneous	1,149		1,149
Total Operating Expenses	<u>4,646,003</u>	<u>295,881</u>	<u>4,941,884</u>
Operating Income (Loss)	<u>967,806</u>	<u>33,757</u>	<u>1,001,563</u>
<b>Non-operating Revenues (Expenses)</b>			
Interest Income	63,842		63,842
Transfer of Capital Asset from			
Governmental Activities	21,694		21,694
Loss on sale of assets	(69,039)		(69,039)
Lease Payments (Interest Expense)	(84,226)		(84,226)
Total Non-operating Revenues	<u>(67,729)</u>		<u>(67,729)</u>
(Expenses)			
Net Income (Loss) Before Transfers	900,077	33,757	933,834
Transfers In	142,248		142,248
Transfers Out	<u>(744,623)</u>		<u>(744,623)</u>
Change In Net Assets	297,702	33,757	331,459
Total Net Assets - Beginning	<u>1,944,915</u>	<u>129,255</u>	<u>2,074,170</u>
Total Net Assets - Ending	<u>\$ 2,242,617</u>	<u>\$ 163,012</u>	<u>\$ 2,405,629</u>

The accompanying notes are an integral part of the financial statements.

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**PIKE COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**



**PIKE COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**

	Business-Type Activities		
	Enterprise Funds		
	Solid Waste	Jail Canteen	Totals
	Fund	Fund	
<b>Cash Flows From Operating Activities</b>			
Receipts From Customers	\$ 5,572,038	\$ 329,638	\$ 5,901,676
Miscellaneous	41,771		41,771
Payments to Vendors	(731,136)		(731,136)
Payments to Employees	(2,018,185)		(2,018,185)
Payments of Benefits on Behalf of Employees	(1,658,454)		(1,658,454)
Cost of Sales		(235,735)	(235,735)
Educational & Recreational		(60,146)	(60,146)
Net Cash Provided By			
Operating Activities	1,206,034	33,757	1,239,791
<b>Cash Flows From Noncapital</b>			
<b>Financing Activities</b>			
Transfers to Other Funds	(744,623)		(744,623)
Transfers from Other Funds	142,248		142,248
Net Cash Used By			
Noncapital Financing Activities	(602,375)		(602,375)
<b>Cash Flows From Capital and</b>			
<b>Related Financing Activities</b>			
Purchase of Assets	(65,864)		(65,864)
Proceeds from Sale of Assets	11,225		11,225
Principal Paid on Capital Debt	(800,854)		(800,854)
Interest Paid on Capital Debt	(84,226)		(84,226)
Net Cash Used By			
Capital and Related Financing			
Activities	(939,719)		(939,719)
<b>Cash Flows From Investing Activities</b>			
Interest Earned	63,842		63,842
Net Increase (Decrease) in Cash and Cash			
Equivalents	(272,218)	33,757	(238,461)
Cash and Cash Equivalents - July 1, 2005	2,493,548	129,255	2,622,803
Cash and Cash Equivalents - June 30, 2006	\$ 2,221,330	\$ 163,012	\$ 2,384,342
<b>Reconciliation of Operating Income to</b>			
<b>Net Cash Provided (Used) by Operating</b>			
<b>Activities</b>			
Operating Income (Loss)	\$ 967,806	\$ 33,757	\$ 1,001,563
Adjustments to Reconcile Operating			
Income To Net Cash Provided (Used)			
By Operating Activities			
Depreciation Expense	238,228		238,228
Total Cash Provided By Operating			
Activities	\$ 1,206,034	\$ 33,757	\$ 1,239,791

The accompanying notes are an integral part of the financial statements.

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**PIKE COUNTY**  
**STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS**  
**June 30, 2006**



**PIKE COUNTY**  
**STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2006**

	<u><b>Agency Fund</b></u>
	<u><b>Inmate</b></u>
	<u><b>Account</b></u>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 7,124
Total Assets	<u>7,124</u>
<b>Liabilities</b>	
Amounts Held In Custody For Others	<u>7,124</u>
Total Liabilities	<u>7,124</u>
<b>Net Assets</b>	
Total Net Assets	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

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**PIKE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets are included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Pike County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Auditing Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes an organization that is legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

**Blended Component Unit**

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Pike County Public Properties Corporation

The fiscal court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation.

Discretely Presented Component Units

The component units' column in the government wide financial statements includes the data of the following organizations. It is reported on the Statement of Net Assets and the Statement of Activities in separate columns that are labeled as "Component Unit" to emphasize these organizations' separateness from the fiscal court's primary government.

Pike County Interlocal 911 Board

The Pike County Interlocal 911 Board (the Board) is a legally separate entity established to provide emergency response services to Pike County. The Board's members are appointed independently of the Pike County Fiscal Court, and the Board's governing body is substantially different from that of the Fiscal Court. However, the Fiscal Court is financially accountable for the Board because the Fiscal Court must approve rate changes established by the Board and therefore does not have a separate audited financial report. This financial accountability requires management to include the Board as a component unit. The Board is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Board is presented discretely.

The fiscal court appropriated \$434,428 to the Board for operating expenses in the fiscal year ending June 30, 2006. The Board reimbursed the fiscal court \$393,213. As of June 30, 2006, the balance of owed to the fiscal court is \$41,216.

Pike County Golf Management Corporation

The Pike County Golf Management Corporation (the Corporation) is a legally separate entity established to provide recreational services to Pike County. The Pike County Fiscal Court appoints the Corporation's board members, and the Corporation's governing body is substantially different from that of the Fiscal Court. The Corporation is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Board is presented discretely.

The fiscal court appropriated \$199,295 to the Corporation for operating expenses in the fiscal year ending June 30, 2006. The Corporation reimbursed the fiscal court \$75,000. As of June 30, 2006 the balance owed to the fiscal court of \$452,570 includes \$328,275 of appropriations from prior years and \$124,295 of appropriations from current year, all of which was debt forgiven by the fiscal court in the current fiscal year.

PIKE COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Pike County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Pike County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities; however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Pike County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-Wide and Fund Financial Statements**

The primary government reports the governmental activities, business-type activities, and proprietary funds using the economic resources measurement focus and the modified cash basis of accounting. Revenues are recognized when received and expenses are recognized when paid, except for the recognition of depreciation expense on the statement of activities and the statement of revenues, expenses and changes in fund net assets – proprietary funds.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets – resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets – those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

PIKE COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-Wide and Fund Financial Statements (Continued)**

Funds are characterized as either major or non-major funds. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The governmental funds are accounted for on the modified cash basis and focus on the flow of current financial resources. Revenues are recognized when received and expenditures are recognized when paid.

The primary government reports the following major governmental funds:

*General Fund* – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor’s Office for Local Development (GOLD) requires a separate fund or when management requires that a separate fund be used for some function.

*Road Fund* – This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. GOLD requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

*Local Government Economic Assistance Fund* - The purpose of this fund is to account for funds earmarked for economic development. The primary sources of revenue for this fund are from the state. GOLD requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

*General Obligation Bond Fund* - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Fiscal Court. The Governor’s Office For Local Development does not require the Fiscal Court to report or budget these funds.

The government also has the following non-major funds: Jail Fund, Forestry Fund, Local Government Economic Development Fund, Maintenance Garage Fund, Capital Lease Acquisition Fund, Community Development Block Grant Fund and Public Properties Corporation Bond Fund.

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-Wide and Fund Financial Statements (Continued)**

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Forestry Fund, Local Government Economic Development Fund, Maintenance Garage Fund, Community Development Block Grant Fund, and the Capital Lease Acquisition Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund

The General Obligation Bond Fund and the Public Properties Corporation Bond Fund maintained by the Pike County Public Properties Corporation are used to account for the accumulation of resources for, and the payment of long-term debt principal and interest.

Proprietary Funds

The proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's proprietary funds are garbage collection fees and landfill user fees in the Solid Waste Fund and charges to customers for sales in the Jail Canteen Fund. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements of Interpretations issued after November 30, 1989 unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The government reports the following major proprietary funds:

*Solid Waste Fund* - The solid waste fund operations are authorized by the Fiscal Court. The Solid Waste Fund allows for the collection and disposal of garbage from residents of Pike County. Also included in this fund is the operation of a county landfill. The Fords branch Landfill Closing fund is included in the operations of the Solid Waste fund. The Fords Branch Landfill Closing fund collects funds during the active life of the landfill to cover final closure costs and post-closure maintenance and monitoring costs 30 years after final closure.

*Jail Canteen Fund* - The canteen operations are authorized pursuant to KRS 441.135 (1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135 (2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Inmate Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Account - This fund accounts for funds received from inmates after incarceration.

Presentation of Component Units

The financial statements present the following major discretely presented component units: Pike County Interlocal 911 Board and Pike County Golf Management Corporation.

These component units are presented in a separate column on the Statement of Net Assets and the Statement of Activities that is labeled as "Component Units" to emphasize these organizations' separateness from the fiscal court's primary government.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	5 - 7
Infrastructure	20,000	2-40

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance cost when received or when paid, during the current period.

The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds received are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity (Continued)**

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**J. Related Organizations**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the following are considered related organizations of Pike County Fiscal Court: Mountain Water District, Pike County Housing Authority, and the Pike County Extension Board.

**K. Jointly Governed Organization**

Pike County Fiscal Court, in conjunction with the City of Pikeville, has created the Pikeville-Pike County Airport Board (the Board). The Board is composed of six appointed members, three appointed from each of the two participating governments. The fiscal court appropriated \$47,573 to the Board for operating expenses. The Board reimburses the fiscal court for these operating expenses. As of June 30, 2006 fiscal court has not been reimbursed and the entire amount is recorded as a receivable. The Board reimbursed the fiscal court for the amount due in July 2006.



PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 2. Deposits**

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a financial institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Note 3. Short-term Debt**

A. In July 2005, Pike County participated in the Kentucky Association of Counties' Kentucky Advance Revenue Program by issuing a note in the amount of \$2,000,000 with principal being due in January 2006. While the county did not use the borrowed funds in order to meet current General and Road Fund expenses, they were able to invest the funds and receive net interest earnings from the Kentucky Association of Counties' Kentucky Advance Revenue Program of \$4,778.

B. On November 4, 2004, the Pike County Fiscal Court entered into a lease agreement in the amount of \$515,000 with the Kentucky Area Development District Financing Trust for a truck purchase project. The County purchased four heavy trucks for the county to use for one year; then the trucks were auctioned off in June 2005 to pay off the outstanding principal of the lease. The agreement required one payment due November 4, 2005, with an interest rate of 2.25%. The principal balance of the agreement was \$0 as June 30, 2006.

C. On June 1, 2005, the Pike County Fiscal Court entered into a lease agreement in the amount of \$520,000 with the Kentucky Area Development District Financing Trust for a truck purchase project. The County purchased six heavy trucks to use for one year; then the trucks were auctioned off in June 2006 to pay off the outstanding principal of the lease. The agreement requires one payment due November 4, 2005, with an interest rate of 3.0%. The principal balance of the agreement was \$0 as June 30, 2006.

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 3. Short-term Debt (Continued)**

D. On June 22, 2006, the Pike County Fiscal Court entered into a lease agreement in the amount of \$263,571 with the Kentucky Association of Counties Leasing Trust for a truck purchase project. The County purchased three heavy trucks to use for one year; then the trucks will be sold at auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. The agreement requires monthly payments due on the 20<sup>th</sup> of each month, with an interest rate of 3.98%. The principal balance of the agreement was \$263,571 as June 30, 2006.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2007	\$ 12,433	\$ 263,751
Totals	<u>\$ 12,433</u>	<u>\$ 263,751</u>

E. On June 23, 2006, the Pike County Fiscal Court entered into a lease agreement in the amount of \$263,571 with the Kentucky Association of Counties Leasing Trust for a truck purchase project. The County purchased three heavy trucks to use for one year; then the trucks will be sold at auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. The agreement requires monthly payments due on the 20<sup>th</sup> of each month, with an interest rate of 3.98%. The principal balance of the agreement was \$263,571 as June 30, 2006.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2007	\$ 12,404	\$ 263,751
Totals	<u>\$ 12,404</u>	<u>\$ 263,751</u>

F. On May 31, 2006, the Pike County Fiscal Court entered into a lease agreement in the amount of \$225,000 with the Kentucky Area Development Districts Financing Trust for a truck purchase project. The County purchased two heavy trucks to use for one year; then the trucks will be sold at auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. The agreement requires one payment due on January 1, 2007, with an interest rate of 4.2%. The principal balance of the agreement was \$225,000 as June 30, 2006.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2007	\$ 5,802	\$ 0
2008	4,986	225,000
Totals	<u>\$ 10,788</u>	<u>\$ 225,000</u>

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 3. Short-term Debt (Continued)**

Short-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Kentucky Advance				
Revenue Program	\$ 0	\$ 2,000,000	\$ 2,000,000	\$ 0
Financing Obligations	1,035,000	752,502	1,035,000	752,502
 Governmental Activities				
Short-term Liabilities	<u>\$ 1,035,000</u>	<u>\$ 2,752,502</u>	<u>\$ 3,035,000</u>	<u>\$ 752,502</u>

The fiscal court has also recognized the assets bought with this debt as “assets held for resale” in the amount of \$752,502 on the Statement of Net Assets since the intent is to sell these at auction in one year.

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 4. Capital Assets**

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Construction in progress	\$ 308,515	\$ 3,465,079	\$ 0	\$ 3,773,594
Land and Land Improvements	438,690	130,378		569,068
Total Capital Assets Not Being Depreciated	747,205	3,595,457		4,342,662
Capital Assets, Being Depreciated:				
Buildings	15,135,943	184,097		15,320,040
Infrastructure	109,281,648	3,569,531		112,851,179
Vehicles and Equipment	6,107,873	550,134	558,415	6,099,592
Total Capital Assets Being Depreciated	130,525,464	4,303,762	558,415	134,270,811
Less Accumulated Depreciation For:				
Buildings	7,233,428	473,223		7,706,651
Infrastructure	74,898,829	1,328,760		76,227,589
Vehicles and Equipment	3,922,260		124,150	3,798,110
Total Accumulated Depreciation	86,054,517	1,801,983	124,150	87,732,350
Total Capital Assets, Being Depreciated, Net	44,470,947	2,501,779	434,265	46,538,461
Governmental Activities Capital Assets, Net	<u>\$ 45,218,152</u>	<u>\$ 6,097,236</u>	<u>\$ 434,265</u>	<u>\$ 50,881,123</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	<u>\$ 5,105,581</u>	<u>\$ 87,558</u>	<u>\$ 401,322</u>	<u>\$ 4,791,817</u>
Total Capital Assets Being Depreciated	5,105,581	87,558	401,322	4,791,817
Less Accumulated Depreciation For:				
Vehicles and Equipment	3,329,181	238,228	321,058	3,246,351
Total Accumulated Depreciation	3,329,181	238,228	321,058	3,246,351
Total Capital Assets, Being Depreciated, Net	1,776,400	(150,670)	80,264	1,545,466
Business-Type Activities Capital Assets, Net	\$ 1,776,400	\$ (150,670)	\$ 80,264	\$ 1,545,466

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 4. Capital Assets (Continued)**

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Pike County Interlocal 911 Board Component Unit Activities:</u>				
Capital Assets Being Depreciated:				
Vehicles and Equipment	\$ 805,231	\$ 51,923	\$ 0	\$ 857,154
Less Accumulated Depreciation For:				
Vehicles and Equipment	228,600	70,093	0	298,693
Component Unit Activities Capital Assets, Net	<u>\$ 576,631</u>	<u>\$ (18,170)</u>	<u>\$ 0</u>	<u>\$ 558,461</u>
<u>Pike County Golf Course Component Unit Activities:</u>				
Capital Assets Being Depreciated:				
Vehicles and Equipment	\$ 437,061	\$ 0	\$ 0	\$ 437,061
Less Accumulated Depreciation For:				
Vehicles and Equipment	248,528	30,019	0	278,547
Component Unit Activities Capital Assets, Net	<u>\$ 188,533</u>	<u>\$ (30,019)</u>	<u>\$ 0</u>	<u>\$ 158,514</u>
<u>Governmental Activities:</u>				
General Government		\$ 33,158		
Protection to Persons and Property		491,814		
Recreation and Culture		36,569		
Roads		<u>1,240,442</u>		
Total Depreciation Expense - Governmental Activities		<u>\$ 1,801,983</u>		
<u>Business-Type Activities</u>				
Solid Waste Vehicles and Equipment		<u>\$ 238,228</u>		
<u>Component Unit Activities:</u>				
Pike Co. Interlocal 911 Board		\$ 70,093		
Pike Co. Golf Management Board		30,019		
		<u>\$ 100,112</u>		

Receivable Due From Sale of Assets

In fiscal year ended June 30, 2005, the fiscal court sold some equipment to M&K Construction for \$50,000. The fiscal court has a contract with this company for payments to commence in the current fiscal year, therefore the entire balance for the sale was recorded as a receivable in the financial statements. The balance owed to the fiscal court is \$40,000 as of June 30, 2006.

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 5.     Financing Obligations**

Governmental Activities:

A.    On June 17, 1991 Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for courthouse renovations. The principal amount of the lease was \$5,000,000. The agreement requires variable monthly payments for 25 years to be paid in full July 1, 2016. The principal balance of the agreement was \$2,932,887 as of June 30, 2006. The variable interest rate results in a payment schedule that may not compare to the prior year schedule. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended 6/30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2007	\$ 142,370	\$ 234,966
2008	130,613	246,330
2009	117,963	258,243
2010	104,804	270,732
2011	90,940	283,825
2012-2016	<u>223,665</u>	<u>1,638,791</u>
Totals	<u>\$ 810,355</u>	<u>\$ 2,932,887</u>

B.    On June 29, 1993 Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for an additional courthouse renovation and furniture. The principal amount of the lease was \$600,000. The agreement requires variable monthly payments for 25 years to be paid in full March 1, 2018, with a variable interest rate. The variable interest rate results in a payment schedule that may not to compare the prior year schedule. The principal balance of the agreement was \$369,281 as of June 30, 2006. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended 30-Jun</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2007	\$ 18,053	\$ 23,568
2008	16,877	24,836
2009	15,595	26,173
2010	14,259	27,581
2011	12,840	29,065
2012-2016	40,326	170,534
2017-2021	<u>3,305</u>	<u>67,524</u>
Totals	<u>\$ 121,255</u>	<u>\$ 369,281</u>

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 5.     Financing Obligations (Continued)**

Governmental Activities (Continued)

C. On November 20, 2000, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for road equipment. The principal amount of the lease was \$1,028,500. The agreement requires variable monthly payments for 5 years to be paid in full March 20, 2006. The principal balance of the agreement was paid as required. The balance as of June 30, 2006 is \$0.

D. On October 1, 2001, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of eight 2001 Ford Crown Victorias. The principal amount of the lease was \$180,000. The agreement requires variable monthly payments for 4 years to be paid in full January 20, 2006. The principal balance of the agreement was paid as required. The balance as of June 30, 2006 is \$0.

E. On January 17, 2003 Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for road improvements. The principal amount of the lease was \$4,250,000. The agreement requires variable monthly payments for 3 years to be paid in full February 20, 2006. The principal balance of the agreement was paid as required. The balance as of June 30, 2006 is \$0.

F. On January 17, 2003, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for 911 vehicles. The principal amount of the lease was \$75,000. The agreement requires variable monthly payments for 5 years to be paid in full January 20, 2008. The principal balance of the agreement was \$30,000 as of June 30, 2006. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended 30-Jun</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2007	\$ 837	\$ 15,000
2008	308	15,000
Totals	<u>\$ 1,145</u>	<u>\$ 30,000</u>

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 5. Financing Obligations (Continued)**

Business-Type Activities

G. On January 11, 2002, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for landfill equipment. The principal amount of the lease was \$3,775,724. The agreement requires variable monthly payments for six years to be paid in full January 20, 2008. The principal balance of the agreement was \$1,364,179 as of June 30, 2006. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended 30-Jun</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2007	\$ 47,360	\$ 667,962
2008	17,713	696,217
Totals	<u>\$ 65,073</u>	<u>\$ 1,364,179</u>

H. On January 17, 2003, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for landfill equipment. The principal amount of the lease was \$625,000. The agreement requires variable monthly payments for 4 years to be paid in full January 20, 2007. The principal balance of the agreement was \$160,000 as of June 30, 2006. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended 30-Jun</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2007	\$ 3,103	\$ 160,000
Totals	<u>\$ 3,103</u>	<u>\$ 160,000</u>

Pike County Golf Course Management Corporation - Business-Type Activities

I. A lease purchase agreement for the acquisition of greens mower was entered into in July 2003. The agreement is with John Deere Credit payable in 36 monthly payments beginning July 2003. The monthly payments are \$565.35. The lease is collateralized by the greens mower and is expected to mature in May 2006. The balance at December 31, 2005 was \$2,771.

A lease purchase agreement for the acquisition of a Toro Gang Reel Mower was entered into in March 2004. The agreement is with GE Capital payable in 60 monthly payments beginning April 2004. The monthly payments are \$440.62 inclusive of interest of 5.71%. The lease is collateralized by the mower and is expected to mature in April 2009. The balance at December 31, 2005 was \$15,958.

A lease purchase agreement for the acquisition of 30 golf carts was entered into in March 2004. The agreement is with Yamaha Motor Corporation payable in 48 monthly payments beginning May 2004. The monthly payments are \$2,940.00 inclusive of interest of 6.36%. The lease is collateralized by the golf carts and is expected to mature in October 2007. The balance at December 31, 2005 was \$33,969.



PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 5. Financing Obligations (Continued)**

Pike County Golf Course Management Corporation - Business-Type Activities (Continued)

Maturities of the leases in the remaining years are as follows:

<u>Fiscal Year Ended 30-Jun</u>	<u>Scheduled Payments</u>
2006	\$ 24,039
2007	22,073
2008	5,034
2009	<u>1,552</u>
Totals	<u>\$ 52,698</u>

**Note 6. General Obligation Bonds**

A. In February 1997, the Pike County Public Properties Corporation, a component unit of the Pike County Fiscal Court, issued \$5,875,000 in refunding revenue bonds to refinance the Hall of Justice. The bonds require semiannual interest payments due August 20 and February 20 and one principal payment each year due August 20. The bonds were scheduled to mature February 20, 2019. The Fiscal Court issued refunding bonds in September 2004 to payoff this bond issue (See **Note 6-B**). As of June 30, 2006, there is \$4,285,099 being held in an escrow account to repay the bonds. The bonds cannot be paid off until March 2007; however, the bond issue is considered defeased and the outstanding debt and the escrow account are not included on the statement of net assets.

B. In September 2004, the Pike County Fiscal Court, issued \$4,320,000 in general obligation-refunding bonds to refinance the 1997 bond issue for the Hall of Justice. The bonds require semiannual interest payments due March 1 and September 1 and one principal payment each year due September 1. The bonds will mature September 1, 2018. As of June 30, 2006, the principal amount outstanding was \$4,080,000. Bond payments for the remaining years are as follows:

<u>Fiscal Year Ended 30-Jun</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2007	\$ 132,915	\$ 255,000
2008	127,440	260,000
2009	120,734	275,000
2010	112,603	290,000
2011	103,678	305,000
2012-2016	345,015	1,830,000
2017-2021	<u>58,731</u>	<u>865,000</u>
Totals	<u>\$ 1,001,116</u>	<u>\$ 4,080,000</u>

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 6. General Obligation Bonds (Continued)**

C. On March 24, 2005, the Pike County Fiscal Court, issued \$6,400,000 in general obligation improvement bonds for improvements to the Hall of Justice. The bonds require semiannual interest payments due March 1 and September 1 and one principal payment each year due March 1. The bonds will mature March 1, 2016. As of June 30, 2006, the principal amount outstanding was \$6,400,000. Bond payments for the remaining years are as follows:

<u>Fiscal Year Ended 30-Jun</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2007	\$ 289,160	\$ 105,000
2008	284,435	110,000
2009	279,485	115,000
2010	274,310	125,000
2010	268,685	130,000
2012-2016	1,251,175	730,000
2017-2021	1,073,200	885,000
2022-2026	856,750	1,090,000
2027-2031	587,058	1,375,000
2032-2036	244,335	1,735,000
Totals	<u>\$ 5,408,593</u>	<u>\$ 6,400,000</u>

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 10,720,000	\$	\$ 240,000	\$ 10,480,000	\$ 360,000
Financing Obligations (Note 5)	4,839,069		1,506,901	3,332,168	273,534
Governmental Activities					
Long-term Liabilities	<u>\$ 15,559,069</u>	<u>\$ 0</u>	<u>\$ 1,746,901</u>	<u>\$ 13,812,168</u>	<u>\$ 633,534</u>
<u>Business-Type Activities:</u>					
Financing Obligations (Note 5)	\$ 2,325,033		\$ 800,854	\$ 1,524,179	\$ 827,962
Business-Type Activities					
Long-term Liabilities	<u>\$ 2,325,033</u>	<u>\$ 0</u>	<u>\$ 800,854</u>	<u>\$ 1,524,179</u>	<u>\$ 827,962</u>

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 7. Interest On General Obligation Bonds and Financing Obligations**

The Statement of Activities – governmental activities includes interest on general obligation bonds and financing obligations in the following functions: debt service \$278,849, roads \$40,008 and protection to persons and property \$1,366.

**Note 8. Employee Retirement System**

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System at 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 9. Insurance**

For the fiscal year ended June 30, 2005, Pike County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 10. Estimated Infrastructure Historical Cost**

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2003 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through June 30, 2002. All infrastructure assets placed in service during the fiscal year ended June 30, 2003 and thereafter are recorded at actual historical cost.

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**Note 11. Landfill Closure and Post-Closure Costs**

401 KAR 48:310 Section 2 and 3 requires the owner or operator of a landfill to have a detailed written estimate, in current dollars, the cost of hiring a third party to close the solid waste disposal site and to conduct each phase of closure care monitoring and maintenance in accordance with the closure plan. The Ford's Branch Landfill closure plan currently calls for six phases. As of June 30, 2006, 76% of phase four of the landfill capacity had been used.

Pike County must comply with established state and federal closure procedures and must perform maintenance and monitoring procedures at the site for 30 years after closure. Estimated closure costs total \$7,127,078, and estimated post closure care costs total \$13,086 per year for 30 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Since the financial statements are prepared on a modified cash basis of accounting, no liability has been recognized for closure or post closure costs.

The fiscal court is required by state and federal laws and regulations to make annual contributions to finance closure and post-closure care. The fiscal court annually deposits \$130,000 of solid waste receipts into an account reserved for the landfill closing. At June 30, 2006, the Ford's Branch Landfill Closing Fund had a cash balance of \$1,957,043.

The Ford's Branch Landfill is scheduled to close in the year 2010. It is anticipated that sufficient funds will be available in the Ford's Branch Landfill Closing Account to pay estimated closure and post-closure costs.

**Note 12. Property Taxes**

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date.

**Note 13. Related Party Transactions**

The County entered into the following related party transactions, which were approved by the fiscal court.

The county expended \$2,200 with Venters Gulf Service for towing services. Venters Gulf Service is owned by County Magistrate Kenneth Robinson's son.

The county expended \$58,036 with Deskins Motor Company for vehicles, parts and labor. Deskins Motor Company is owned by County Judge/Executive William Deskins' brother.

The county expended \$68,262 with East Kentucky Chemicals for cleaning supplies. The Treasurer's spouse is employed by East Kentucky Chemicals.

**Note 14. Net Assets Deficit - Component Unit**

The deficit in net assets in the Pike County Golf Management Corporation, a discretely presented component unit, is due primarily to accumulated depreciation reducing capital assets.

**PIKE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**



**PIKE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Cash Basis**

**For The Year Ended June 30, 2006**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 3,935,000	\$ 3,809,317	\$ 3,869,492	\$ 60,175
In Lieu Tax Payments	29,000	50,810	51,713	903
Excess Fees	557,000	577,000	572,809	(4,191)
Licenses and Permits	384,125	384,166	317,378	(66,788)
Intergovernmental Revenue	3,502,270	3,769,796	2,288,530	(1,481,266)
Charges for Services	35,000	35,665	34,327	(1,338)
Miscellaneous	77,225	68,701	75,516	6,815
Interest	88,422	81,945	126,357	44,412
Total Revenues	8,608,042	8,777,400	7,336,122	(1,441,278)
<b>EXPENDITURES</b>				
General Government	3,256,432	3,664,803	3,482,750	182,053
Protection to Persons and Property	543,024	615,178	604,015	11,163
General Health and Sanitation	2,135,015	2,131,938	746,377	1,385,561
Social Services	189,617	196,826	189,349	7,477
Recreation and Culture	670,098	442,923	298,975	143,948
Roads	75,423	90,788	86,228	4,560
Airports	103,347	83,957	63	83,894
Debt Service	4,582,401	2,016,844	2,016,844	
Capital Projects	151,904	153,712	53,824	99,888
Administration	1,586,898	1,584,984	1,428,222	156,762
Total Expenditures	13,294,159	10,981,953	8,906,647	2,075,306
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(4,686,117)	(2,204,553)	(1,570,525)	634,028
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds	4,532,900	2,000,000	2,000,000	
Transfers From Other Funds	153,217			
Total Other Financing Sources (Uses)	4,686,117	2,000,000	2,000,000	
Net Changes in Fund Balances		(204,553)	429,475	634,028
Fund Balances - Beginning (restated)		204,553	204,552	(1)
Fund Balances - Ending	\$ 0	\$ 0	\$ 634,027	\$ 634,027
<b><u>Reconciliation - Fund Balances - Ending</u></b>				
Budgetary Basis	\$ 634,027			
Receivable Due From 911 Board	41,216			
Receivable Due From Airport Board	47,573			
Modified Cash Basis	\$ 722,816			

**PIKE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Cash Basis**  
**For The Year Ended June 30, 2006**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
In Lieu Tax Payments	\$ 52	\$ 52	\$ 39	\$ (13)
Intergovernmental Revenue	8,806,153	8,843,385	5,520,100	(3,323,285)
Miscellaneous	52,000	606,819	553,134	(53,685)
Interest	46,444		2	2
Total Revenues	8,904,649	9,450,256	6,073,275	(3,376,981)
<b>EXPENDITURES</b>				
Roads	12,009,801	13,687,896	9,287,321	4,400,575
Debt Service	3,355,649			
Administration	1,316,100	1,307,693	1,295,512	12,181
Total Expenditures	16,681,550	14,995,589	10,582,833	4,412,756
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(7,776,901)	(5,545,333)	(4,509,558)	1,035,775
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligations	3,319,400			
Transfers From Other Funds	4,976,108	5,460,542	4,731,500	(729,042)
Transfers To Other Funds	(648,607)	(670,107)	(670,107)	
Total Other Financing Sources (Uses)	7,646,901	4,790,435	4,061,393	(729,042)
Net Changes in Fund Balances	(130,000)	(754,898)	(448,165)	306,733
Fund Balances - Beginning	130,000	754,898	755,164	266
Fund Balances - Ending	\$ 0	\$ 0	\$ 306,999	\$ 306,999



**PIKE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Cash Basis**  
**For The Year Ended June 30, 2006**  
**(Continued)**

	<b>LGEA FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 11,828,930	\$ 13,092,257	\$ 13,096,214	\$ 3,957
Miscellaneous		4,715	7,380	2,665
Total Revenues	<u>11,828,930</u>	<u>13,096,972</u>	<u>13,103,594</u>	<u>6,622</u>
<b>EXPENDITURES</b>				
General Government	130,305	362,538	354,923	7,615
Protection to Persons and Property	1,258,969	1,278,585	953,376	325,209
General Health and Sanitation	474,478	474,503	317,684	156,819
Social Services	1,371,248	1,373,508	1,049,356	324,152
Recreation and Culture	1,584,137	1,972,856	942,512	1,030,344
Airports		93,097	88,354	4,743
Other Transportation Facilities and Services	12,000	13,516	13,512	4
Debt Service	508,144	515,020	515,019	1
Capital Projects	1,520,000	1,520,097	1,136,257	383,840
Administration	175,497	296,575	288,582	7,993
Total Expenditures	<u>7,034,778</u>	<u>7,900,295</u>	<u>5,659,575</u>	<u>2,240,720</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>4,794,152</u>	<u>5,196,677</u>	<u>7,444,019</u>	<u>2,247,342</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	<u>(7,326,845)</u>	<u>(7,005,048)</u>	<u>(6,275,748)</u>	<u>729,300</u>
Total Other Financing Sources (Uses)	<u>(7,326,845)</u>	<u>(7,005,048)</u>	<u>(6,275,748)</u>	<u>729,300</u>
Net Changes in Fund Balances	(2,532,693)	(1,808,371)	1,168,271	2,976,642
Fund Balances - Beginning	<u>2,532,693</u>	<u>1,808,371</u>	<u>1,808,373</u>	
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,976,644</u>	<u>\$ 2,976,642</u>

**PIKE COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2006**

**Note 1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. Reconciliation of Required Supplementary Information to Statement of Revenues, Expenditures, and Changes in Fund Balances**

Following is a summary of adjustments that convert the cash basis budgetary schedules to the modified cash basis of accounting used in the Statement of Revenues, Expenditures, and Changes in Fund Balances:

	Revenues	Expenditures	Other Financing Sources (Uses)
<b><i>General Fund</i></b>			
Budgetary Comparison Schedule	\$ 7,336,122	\$ 8,906,647	\$ 2,000,000
Golf Mgmt Corp debt forgiven		452,570	
911 Board reimbursements received	(393,213)		
911 Board expenses paid		(434,428)	
Golf Mgmt Corp reimbursements received	(75,000)		
Airport Board reimbursements received	(37,401)		
KARP Principal Payment		(2,000,000)	(2,000,000)
Transfers reclassified as expenditures from LGEA fund			246,868
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	<u>\$ 6,830,508</u>	<u>\$ 6,924,789</u>	<u>\$ 246,868</u>
<b><i>Road Fund</i></b>			
Budgetary Comparison Schedule		\$ 10,582,833	\$ 4,061,393
Purchases of trucks with short-term debt		752,502	752,502
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis		<u>\$ 11,335,335</u>	<u>\$ 4,813,895</u>
<b><i>LGEA Fund</i></b>			
Budgetary Comparison Schedule		\$ 5,659,575	\$ (6,275,748)
Golf Management Corporation expenses paid		(199,295)	
Airport Board expenses paid		(47,573)	
Transfers reclassified from debt service expenditures		(95,414)	(95,414)
Expenditures reclassified as transfers from general fund			(246,868)
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis		<u>\$ 5,317,293</u>	<u>\$ (6,618,030)</u>

**PIKE COUNTY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -**  
**MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2006**

**PIKE COUNTY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -**  
**MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2006**

	<b>Jail Fund</b>	<b>Forestry Fund</b>	<b>Local Government Economic Development Fund</b>	<b>Maintenance Garage Fund</b>	<b>Capital Lease Acquisition Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 26,418	\$ 86	\$ 704,038	\$ 5,400	\$ 3,682
Total assets	<u>\$ 26,418</u>	<u>\$ 86</u>	<u>\$ 704,038</u>	<u>\$ 5,400</u>	<u>\$ 3,682</u>
<b>FUND BALANCES</b>					
Reserved For:					
Encumbrances	\$ 78,896	\$	\$	\$ 12,303	\$
Debt Service Fund					
Unreserved					
Special Revenue Funds	<u>(52,478)</u>	<u>86</u>	<u>704,038</u>	<u>(6,903)</u>	<u>3,682</u>
Total Fund Balances	<u>\$ 26,418</u>	<u>\$ 86</u>	<u>\$ 704,038</u>	<u>\$ 5,400</u>	<u>\$ 3,682</u>

See accompanying notes to the basic financial statements.

**PIKE COUNTY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -**  
**MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**June 30, 2006**  
**(Continued)**

<b>Public Properties Corporation Bond Fund</b>	<b>Total Non-Major Governmental Funds</b>
<u>\$ 44</u>	<u>\$ 739,668</u>
<u><u>\$ 44</u></u>	<u><u>\$ 739,668</u></u>
\$ 44	\$ 91,199
	44
<u>          </u>	<u>648,425</u>
<u><u>\$ 44</u></u>	<u><u>\$ 739,668</u></u>

See accompanying notes to the basic financial statements.

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**PIKE COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2006**

**PIKE COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2006**

	<b>Jail Fund</b>	<b>Forestry Fund</b>	<b>Local Government Economic Development Fund</b>	<b>Maintenance Garage Fund</b>
<b>REVENUES</b>				
Taxes	\$	\$ 6,729	\$	\$
Intergovernmental	957,668			
Charges For Services	224,481			
Miscellaneous	16,594		167,513	53,606
Interest			19,527	
Total Revenues	<u>1,198,743</u>	<u>6,729</u>	<u>187,040</u>	<u>53,606</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	2,017,466	8,208		
Other Transportation Facilities and Services				1,173,772
Debt Service				
Capital Projects				
Administration	714,661			302,679
Total Expenditures	<u>2,732,127</u>	<u>8,208</u>		<u>1,476,451</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,533,384)</u>	<u>(1,479)</u>	<u>187,040</u>	<u>(1,422,845)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers To Other Funds				
Transfers From Other Funds	1,400,449	1,550		1,414,731
Total Other Financing Sources (Uses)	<u>1,400,449</u>	<u>1,550</u>		<u>1,414,731</u>
Net Change in Fund Balances	(132,935)	71	187,040	(8,114)
Fund Balances - Beginning	159,353	15	516,998	13,514
Fund Balances - Ending	<u>\$ 26,418</u>	<u>\$ 86</u>	<u>\$ 704,038</u>	<u>\$ 5,400</u>

See accompanying notes to the basic financial statements.



**PIKE COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2006 (Continued)**

<b>Capital Lease Acquisition Fund</b>	<b>Community Development Block Grant Fund</b>	<b>Public Properties Corporation Bond Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$	\$	\$	\$
	950,000		6,729
			1,907,668
			224,481
			237,713
127		589	20,243
127	950,000	589	2,396,834
			2,025,674
			1,173,772
		13,862	13,862
	950,000		950,000
			1,017,340
	950,000	13,862	5,180,648
127		(13,273)	(2,783,814)
		(460,379)	(460,379)
		460,379	3,277,109
			2,816,730
127		(13,273)	32,916
3,555		13,317	706,752
\$ 3,682	\$ 0	\$ 44	\$ 739,668

See accompanying notes to the basic financial statements.

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**PIKE COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUND - COMPONENT UNIT - MODIFIED CASH BASIS**  
**June 30, 2006**



**PIKE COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUND - COMPONENT UNIT - MODIFIED CASH BASIS**

**June 30, 2006**

	<b><u>Pike County Interlocal 911 Board</u></b>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 96,591
Total Assets	<u>96,591</u>
<b>Fund Balance</b>	
Unreserved	96,591
Total Fund Balance	<u>\$ 96,591</u>

**Reconciliation of the Balance Sheet-Governmental funds to the Statement of Net Assets**

Total Fund Balance (Unreserved)	\$ 96,591
Amounts Reported For Governmental Activities In the Statement Of Net Assets Are Different Because	
Capital Assets , Net of Accumulated Depreciation, used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds	<u>558,461</u>
Net Assets of Pike County Interlocal 911 Board	<u>\$ 655,052</u>

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**PIKE COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUND - COMPONENT UNIT - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**





**PIKE COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUND - COMPONENT UNIT - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

	<b>Pike County Interlocal 911 Board</b>
<b>Revenues</b>	
Charges For Services	\$ 415,227
Interest	844
Total Revenues	<u>416,071</u>
<b>Expenditures</b>	
Protection To Persons and Property	397,869
Administration	36,569
Total Expenditures	<u>434,438</u>
Excess (Deficiency) Of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>(18,367)</u>
Net Change in Fund Balances	(18,367)
Fund Balances-Beginning	114,958
Fund Balances-Ending	<u>\$ 96,591</u>

**Reconciliation of the Statement of Revenues, Expenditures and Changes  
In Fund Balance of Governmental Funds to the Statement of Activities**

Net Change in Fund Balances-Total Governmental Fund	\$ (18,367)
Government funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets are allocated over their useful lives and reported as depreciation expense.	
Capital Outlay	51,923
Depreciation	<u>(70,093)</u>
Change in Net Assets of Pike County Interlocal 911 Board	<u>\$ (36,537)</u>

See accompanying notes to the basic financial statements.

**PIKE COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2006**

**A. SUMMARY OF AUDIT RESULTS**

1. The Auditors' report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pike County. The auditors' report also expresses a qualified opinion on the aggregate discretely presented component units of Pike County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditors' Report.
3. No instances of noncompliance material to the financial statements of Pike County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditors' Report.
5. The auditors' report on compliance for the audit of the major federal awards programs for Pike County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Pike County reported in Part C of this schedule.
7. The programs tested as major programs were: Department of Homeland Security - Public Assistance Grants - CFDA # 97.036; Community Development Block Grant - CFDA #14.219; Abandoned Mine Land Reclamation Programs - CFDA #15.252.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Pike County was determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

NONE.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

NONE.

**D. SUMMARY SCHEDULE OF PRIOR AUDITY FINDINGS**

**Reference Number 2005-01**

The Fiscal Court Should Appoint An EMA Director Who Is A Resident Of Pike County

CORRECTED.

**PIKE COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2006**

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Commerce</b>		
<b>Congressionally Identified Awards and Projects</b>		
PRIDE Community Grant - Lwr Johns Crk/Pompey Hill		
(CFDA #11.469)	CF05-34	\$ 32,900
PRIDE Super Grant - Calloway		
(CFDA #11.469)	SG04-11	3,750
PRIDE Super Grant - Poor Bottom Watershed		
(CFDA #11.469)	SG05-10	50,999
Total U. S. Department of Commerce		<u>87,649</u>
<b>U.S. Department of Housing and Urban Development</b>		
Passed-Through Governor's Office for Local Development		
Community Development Block Grant		
Lower Johns Creek Water Project		
(CFDA #14.219)	03-023	950,000
<b>U.S. Small Business Administration</b>		
Passed-Through Governor's Office for Local Development		
Hatfield-McCoy Project		
(CFDA #59.000)	SBA HQ-01-I-0037	248,639
<b>U.S. Department of the Interior</b>		
<b>Office of Surface Mining Reclamation &amp; Enforcement</b>		
Passed-Through Kentucky Infrastructure Authority:		
Abandoned Mine Land Reclamation Program		
Shelby Valley Water Project		
(CFDA #15.252)	M-05187350	671,141
Elkhorn City Interconnector Project		
(CFDA #15.252)	M-02170155	63,235
Total U. S. Department of the Interior		<u>734,376</u>
<b>U.S. Department of Homeland Security</b>		
Passed-Through State Department		
of Military Affairs:		
Public Assistance Grants		
(CFDA #97.036)	Fema-1388-DR-KY	16,548
Public Assistance Grants		
(CFDA #97.036)	Fema-1414-DR-KY	253,909
Public Assistance Grants		
(CFDA #97.036)	Fema-1454-DR-KY	187,020
Public Assistance Grants		
(CFDA #97.036)	Fema-1475-DR-KY	694,188
Public Assistance Grants		
(CFDA #97.036)	Fema-1523-DR-KY	586,338
Homeland Security Grant Program		
Chemical Detection Equipment		
(CFDA #97.067)	M-05326112	66,470
Community Emergency Response Team		
2003 Cert Funds to Counties		
(CFDA #97.053)	M-03432646	4,167
Total U. S. Department of Homeland Security		<u>1,808,640</u>
<b>TOTAL FEDERAL AWARDS</b>		<u><u>\$ 3,829,304</u></u>

See accompanying notes to the basic financial statements.

**PIKE COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Fiscal Year Ended June 30, 2006**

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pike County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - The federal expenditures for Abandoned Mine Land Reclamation Program Elkhorn City Interconnector Project and Shelby Valley Water Project includes grants to the sub-recipient as follows:

<u>Sub-recipient</u>	<u>CFDA#</u>	<u>Grant Amount</u>
Mountain Water District	15.252	\$ 734,376

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





*Simon,  
Underwood &  
Associates* PSC

Certified Public Accountants and Consultants

The Honorable William M. Deskins, Former Pike County Judge/Executive  
The Honorable Wayne T. Rutherford, Pike County Judge/Executive  
Members of the Pike County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pike County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated September 20, 2006, wherein we issued a qualified opinion on the aggregate discretely presented component units. Pike County presents its financial statements on the modified cash basis which is a comprehensive basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pike County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration on the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Pike County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

*Simon, Underwood & Associates PSC* |

Simon, Underwood & Associates PSC

Louisville, Kentucky  
September 20, 2006



**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**





*Simon,  
Underwood &  
Associates* PSC

Certified Public Accountants and Consultants

The Honorable William M. Deskins, Former Pike County Judge/Executive  
The Honorable Wayne T. Rutherford, Pike County Judge/Executive  
Members of the Pike County Fiscal Court

Report on Compliance With Requirements  
Applicable To Each Major Program And On Internal  
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Pike County, Kentucky, with types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Pike County's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pike County's management. Our responsibility is to express an opinion on Pike County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about Pike County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pike County's compliance with those requirements.

In our opinion, Pike County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

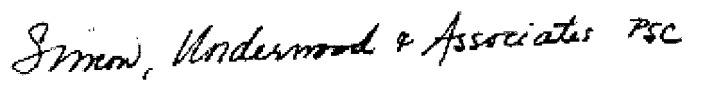
Internal Control Over Compliance

The management of Pike County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pike County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Report on Compliance With Requirements  
Applicable To Each Major Program And On Internal  
Control Over Compliance In Accordance With OMB Circular A-133

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

A handwritten signature in black ink that reads "Simon, Underwood & Associates PSC". The signature is written in a cursive, flowing style. To the right of the signature is a vertical line.

Simon, Underwood & Associates PSC

Louisville, Kentucky  
September 20, 2006

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**PIKE COUNTY FISCAL COURT**

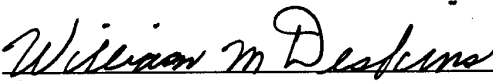
**For The Fiscal Year Ended June 30, 2006**



**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND**  
**DEVELOPMENT PROGRAMS**  
**PIKE COUNTY FISCAL COURT**

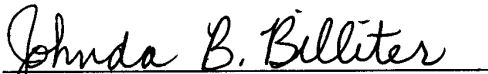
**For The Fiscal Year Ended June 30, 2006**

The Pike County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Economic Development Programs was expended for the purposes intended as dictated by the applicable Kentucky Revised Statutes.



Name

County Judge/Executive



Name

County Treasurer

